

Reverse Auctions

Guideline - 3.8.G (02/02/04)

[Last Update: \(02/02/04\) RShibata:kma – 3.8.G.0](#)

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This new guideline provides guidance for the Sandia Contracting Representative (SCR) on the use of Reverse Auctions.

Definitions:

Reverse Auction is an on-line procurement method used to obtain quotations for commodities and services. In a Reverse Auction, something is purchased from the lowest quoter (which is the "reverse" of a normal auction, wherein something is sold to the highest quoter). A Reverse Auction is typically conducted via the Internet whereby quoters anonymously quote against each other for a Sandia requirement. Quoting takes place at a specified date and time and continues for a specified amount of time or until no more quotes are received.

Minimum Quotation Increment: Typically each successive quote must differ from the previous quote by an amount known as the minimum quotation increment. The minimum quotation increment is pre-determined by Sandia and will be different depending on what is being

auctioned. A minimum quotation decrement will typically be expressed in terms of a dollar value.

Reverse Auction Service Provider (RASP) is an outside supplier that conducts a Reverse Auction on behalf of Sandia.

Sandia Reverse Auction Process Manager (SRAPM) is the single point of contact and liaison between the SCR and the RASP.

Extension Activation Period (EAP) is defined as the number of minutes before the end of an auction, during which, if a quote is received, Sandia may choose to extend the auction by a predefined number of additional minutes (the "extension"). For example, if the auction parameters are:

EAP=3 minutes, Extension=5 minutes

and, if a quote is placed within the last 3 minutes of an auction, the auction would be extended an additional 5 minutes. If another quote is received in the last 3 minutes of that extension, the auction would again be extended another 5 minutes. This would continue until no more quotes were received or until any specified period has expired.

Not to Exceed Bid Time: If used, this is the time that the SCR may set at which the auction will end and not be extended.

Surrogate quoting is when Sandia or the RASP accepts quotes via phone, fax, or some alternate method on behalf of a potential supplier that cannot enter its own quotes via the Internet for whatever reason.

Acquisition Planning - 3.8.G.1

The SCR should carefully consider various factors in determining the feasibility of performing a Reverse Auction. The SCR should contact the SRAPM if they believe that a Reverse Auction is applicable to a procurement.

Process - 3.8.G.1.a

The basic steps in conducting a Reverse Auction are as follows:

- perform Acquisition Planning,
- issue the a Request for Information and/or Solicitation
- receive quotations and qualify suppliers,
- interface with the suppliers on the Reverse Auction Process, which includes training,
- conduct the auction, and

- award the contract(s).

Procurement Considerations - 3.8.G.1.b

The following are Reverse Auction issues that should be considered:

- **Type of contract:** Reverse Auctions are generally used for Firm-Fixed Price (FFP) contracts. However, in some specific circumstances, they may be used on Time and Materials (T&M) and Labor Hour (LH) contracts. For any type of contract, the SCR should contact the SRAPM for advice.
- **Dollar thresholds:** Reverse Auctions should be used for relatively high dollar procurement.
- **Number of multiple/interested suppliers:**
 - Five (5) as a minimum (normal).
 - Can be as low as three (3) in sophisticated areas (i.e., test and measurement).
- **Product/Statement-of-Work:** Information should be well-defined and well-understood.
- **Supplier Mix:**
The SCR should consider the mix of suppliers involved in the Reverse Auction and if any of the suppliers will have such a dominant position that actual competition would not occur. Factors to be considered would be business size, geographic location, business access to capital, etc.
- **Quantity:** Based on how much money is at stake and how attractive the business is to prospective suppliers. Presumably, larger quantities would attract a larger number of suppliers, and therefore, result in better prices.
- **Definable quality:** Items that have defined specifications and/or have small or no differences in quality are best suited to a Reverse Auction.
- **Competitive industry:** Items available from many suppliers are better suited to a Reverse Auction than items for which there are only one or two suppliers. Use of Reverse Auctions in a small industry may only serve to alienate all of the firms.
- **Location:** To be conducted in-house or with a **Reverse Auction Service Provider**.
- **Selected Reverse Auction Service Provider:** May not be a quoter in the auction.
- **Encryption requirements:** May/may not be needed.
- **Quotation Information:** Type of information in the suppliers quotations that may/may not be disclosed.
- **Target Price:** What would be the expected price of the goods or services being offered?

Pros and Cons - 3.8.G.1.c

The following are some of the pros and cons for Reverse Auctions:

- **Pros:**
 - High potential for price reductions.
 - Increases efficiency of the negotiation process.
 - Promotes a fair negotiation process.
 - Process is easy to use.
 - Provides good benchmark data for industry pricing.
- **Cons:**
 - Pure price focus when value should be considered.
 - Risk in suppliers getting caught up in the moment and quoting too low.
 - Risk of damaging relations with incumbent/strategic partners.
 - Cost of the Auction may be greater than the savings obtained.
 - Some suppliers may not want to participate in a Reverse Auction.
 - Possible increase in cycle time for the procurement.

Planning the Reverse Auction - 3.8.G.1.d

The SCR and the SRAPM should determine if the procurement is appropriate for Reverse Auction and how to structure the auction. The following questions should be considered:

- Is procurement conducive to a Reverse Auction?
- Is the Requester willing to participate in a Reverse Auction?
- Are profit margins adequate (if determinable)?
- Is there adequate competition?
- Are specifications definable?
- Are there attractive quantities?
- Are there socio-economic considerations?

- What is the impact on strategic partners and incumbent suppliers?
- What are the line items/groupings/total requirements?
- Should the award go to single supplier or multiple suppliers?
- How will "the lowest quotation" be calculated?
- What are the minimum quotation increments?
- What is the expected target price?
- Where does the quotation increment apply (per line item, calculated total, none, etc.)?
- What is the time period for the Reverse Auction?

The SCR should also perform the following tasks when planning the auction:

- Schedule a date/time.
- Schedule a room to meet the capabilities to view an auction, including web capabilities, compatible computer, and projection capabilities.
- Determine extensions policy and parameters.

Selection and Qualifications of the RASP - 3.8.G.1.e

The SRAPM is responsible for selecting a RASP. Considerations in the selection of a RASP include:

- **Cost:**
 - Is there a minimum and maximum range or a fixed price that the RASP supplier will charge for the service?
 - Who will pay the cost of using the RASP?
 - Will the cost of using the RASP be borne by Sandia or by the Supplier?
 - Will supplier charge a significant license fee?

Qualification requirements:

- Capability to surrogate quote.
- Train suppliers on use of system and equipment.

- **Nondisclosure Agreement:** SCR may want to consider the use of a Nondisclosure Agreement.

Note: RASP suppliers may recommend sources and offer source selection capabilities, which Sandia will not use.

Solicitation Documentation - 3.8.G.2

The solicitation document for a Reverse Auction should contain the following:

- Minimum computer system requirements.
- Notification that a Reverse Auction will be used.
- Notification on how, when, and with whom the Reverse Auction will be conducted.
- Notification on the format for responses during the auction.
- Notification on extensions.
- Quotation Instruction to advise suppliers that wish to submit a quotation, but do not wish to participate in the actual Reverse Auction process that their quote will be entered by proxy into the reverse auction and as such may be disclosed during the auction.
- Definition of what elements should be included in the quoted price (i.e., taxes, shipping costs, packaging costs, all discounts, etc.).
- Reserve Clause – Sandia will reserve the right to:
 - reject any or all quotes,
 - award items separately or in the aggregate (whichever is in the best interest of Sandia), and
 - cancel or stop the Reverse Auction and award the contract on some other basis.
- What information will be disclosed and to whom.
- Statement that reads: “The apparent winning quote is not final until verified by the SCR. No award of any contract is given or implied to any auction participant at this time. Sandia will make known its decision to award contract(s) through written notification at a later date.”

Selection of Suppliers - 3.8.G.3

Clarifications, negotiations, and acceptance of all specifications, requirements, terms and conditions, etc., should occur before the SCR decides whether to invite a supplier to the Reverse Auction. After the Reverse Auction, the SCR may permit changes only with the limitation that the change(s) do not alter the scope or content of the original solicitation to a degree that will affect the justification that was used to eliminate other suppliers from being invited to the Reverse Auction

Any supplier selected for participation in a reverse auction shall meet the requirements of the solicitation as defined in Guideline 3.1.G - Best Value Source Selection/Commercial Like Practice.

The SCR should notify responding suppliers as to whether they are invited to the Reverse Auction. The SCR will not disclose to the public or other suppliers the names of the suppliers that have been invited to the Reverse Auction.

In a Best Value scenario, if a supplier does not meet any mandatory requirements or does not have an adequate technical evaluation and would have a low probability of success in being awarded the contract, that supplier should not be invited to participate in a Reverse Auction

Roles and Responsibilities - 3.8.G.4

Reverse Action Service Provider (RASP) - 3.8.G.4.a

The RASP should train the potential supplier in the following areas:

- How to fill in the quote screen and submit a quote.
- Refresh issues (e.g., server clock vs. local clock, unseen quotes due to refresh delays, etc.).
- What browsers to use at their site.
- Connectivity issues (e.g., transmission delays, submit time vs. receive time).
- Do's and Don't's in Reverse Auctions. For example:
 - don't use the "Back" button;
 - don't hit "X" (close the window);
 - do hit "refresh," if stuck;
 - do have a minimum number of applications running;
 - do disable your screen saver; and
 - do disable call waiting if it will interfere with your Internet connection.

The RASP should also:

- notify the prospective suppliers and the SCR on system requirements;
- provide the SCR and suppliers with a point of contact for any potential problems;
- conduct a practice auction (practice auction will be identical to the actual auction) with each supplier on a one-on-one basis; and
- have contingent processes in place in the event of communication or technical problems.

Sandia Contracting Representative (SCR) - 3.8.G.4.b

The SCR is responsible for providing the following SNL information to the suppliers:

- relevant procurement policies and procedures,
- Terms and Conditions (Ts&Cs),
- solicitation requirements, and
- necessity of establishing the lowest price that they will be able to quote prior to the auction.

Sandia Reverse Auction Process Manager (SRAPM) - 3.8.G.4.c

The SRAPM is responsible for:

- identifying potential procurements for Reverse Auctions,
- providing guidance to the SCR in the development of the solicitation,
- coordinating and facilitating the Reverse Auction process,
- promoting the Reverse Auction concept to the line customer,
- ensuring consistency with Sandia e-Commerce initiatives, and
- training the suppliers.

Conducting the Reverse Auction - 3.8.G.5

The SCR and SRAPM should consider the following:

- checking that everything is technically stable,
- reconfirming that the suppliers understand all the rules (i.e., extensions and auction ending schedule, etc.), and
- reconfirming that: "Sandia is not obligated to honor any quotes submitted, but not received and logged by the server, within the last two (2) minutes of the auction."

The SCR may wish to contact the prospective suppliers if the following occurs:

- Supplier is not logged in after 10 minutes from the start of the auction.
- Supplier does not place a quote for 20 minutes .

The SCR shall notify RASP and the prospective suppliers if the following occurs:

- Auction needs to be suspended.
- Before the auction resumes from a suspended auction.

Any supplier that wishes to leave the auction before the conclusion must notify the RASP and let them know that they are no longer participating. Suppliers should be notified that if they leave

the auction that they would jeopardize their chances of being awarded the contract. Supplier may re-enter an auction by notifying the RASP that they are going to do so.

During the auction, the on-line view of the quotes presented to the suppliers will not have names, aliases, or identifiers of any kind as to who has placed a particular quote.

The SCR will determine the auction's extension parameters prior to the beginning of the auction. The Extension Activation Period (EAP) may not be less than three (3) minutes. The following types of extension options may apply:

- **None** - No extensions to the initial length of the auction will be allowed.
- **Limited number of extensions** - A predefined number of extension periods will be allowed.
- **Cut-off time** - An unlimited number of extensions will be allowed until a predefined time of day.
- **Unlimited** - An unlimited number of extensions will be allowed. The auction will end when no further quotes are received and time expires.

Only suppliers that have placed at least one quotation during the initial period of the auction will be eligible to place quotations during any extension period.

All suppliers (i.e., suppliers that have not actively indicated that they have left the auction) still participating at the end of an auction must stay connected to the auction site, until they are actively notified by the RASP that the auction is officially over.

At the conclusion of the auction, the SCR will:

- Document the results of the auction for the procurement file.
- Consider having all participating suppliers fax in their final written quote.
- Contact all participating suppliers and confirm that the auction is over with and add the following message:
“The apparent winning quote is not final until verified by the SCR. No award of any contract is given or implied to any auction participant at this time. Sandia will make known its decision to award contract(s) through written notification at a later date.” (This statement should also be included in the solicitation.)

The SCR or RASP (with SCR approval) may suspend or terminate an auction for any reason. Upon resuming an auction after a suspension, the time remaining will be used as the time that is left when the auction was suspended or 10 minutes, whichever is greater.

Value Based Auctions - 3.8.G.6

A Reverse Auction can be used in a Value Based Procurement scenario. The supplier should be advised that a Value Based Auction is being used and, therefore, the lowest quote may not be selected.

Suppliers should not be given the opportunity to change their technical proposals once they are selected for participation in the Reverse Auction.

If technical factors are the primary factor for award of the contract and one supplier has a “decided” competitive advantage, the SCR should consider not performing a Reverse Auction. The results of the auction may not have any affect on the selection of the awardee of the contract.

Reverse Auction Documentation - 3.8.G.7

The SCR should document in the PAS the following:

- The final proposed prices of each of the proposed suppliers.
 - If Best Value was used, the price cost trade off.
 - The target price and final accepted price.
 - If the final accepted price was significantly different (less or more than 15%) from the target price, the SCR’s rationale on why the selected contractor will be able to adequately meet the requirements of the contract.
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References – 3.8.G.8

Policy and Guideline 3.1 - Best Value Source Selection/Commercial Like Practice

Send feedback on ideas and information on this page to the Process Expert, Randy Shibata.



[Randy Shibata](#)



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